



# Financial Services Regulation Committee

## Uncorrected oral evidence: The FCA and PRA's secondary competitiveness and growth objective

Wednesday 18 December 2024

10.10 am

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Baroness Donaghy; Lord Eatwell; Lord Grabiner; Lord Hill of Oareford; Lord Hollick; Lord Kestenbaum; Lord Lilley; Baroness Noakes; Lord Sharkey; Lord Vaux of Harrowden.

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Questions 270 – 274

### Witness

[I:](#) Hannah Gurga, Director General, Association of British Insurers (ABI).

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## Examination of witness

Hannah Gurga.

Q270 **The Chair:** Welcome to today's meeting, which is the 13th oral evidence session as part of the committee's inquiry into the FCA and PRA's secondary competitiveness and growth objective. Thank you, Ms Gurga, for attending. A list of interests of members relevant to the inquiry is available online. The session is open to the public, is broadcast live and is subsequently accessible via the parliamentary website.

A verbatim transcript will be taken of the evidence and will be put on the parliamentary website. A few days after this session, you will be sent a copy of the transcript to check it for accuracy. It would be helpful if you could advise us of any concerns as quickly as possible. If, after this evidence session, you wish to clarify or amplify any points made during your evidence, or have any additional points to make, you are welcome to submit supplementary evidence to us.

Would you like to make a short opening statement?

**Hannah Gurga:** I would. Thank you very much for giving me the opportunity to provide you with evidence today. I am the director-general of the ABI, and we represent over 300 firms across the UK's insurance and long-term savings industry. Our sector is the largest in Europe. It is the fourth-largest in the world and we employ over 300,000 people right across the UK, managing investments of £1.4 trillion and contributing £18.5 billion in taxes each year.

As the committee may be aware, throughout the passage of the Financial Services and Markets Act, the ABI advocated for two key elements. The first was the introduction of a new growth and competitiveness objective and the second was robust scrutiny and accountability to ensure its meaningful implementation. Since then, we feel that the Treasury's development of metrics to assess the regulators' performance marks a good first step, and we are very supportive of the work of this committee in providing parliamentary scrutiny.

The regulators are making headway in embedding the secondary objective. We see that through the first progress report that they produced earlier this year, but also directly in our engagement with the PRA, through its technical working groups around reforms to Solvency II, and through initiatives such as the FCA's handbook review, as well as simplification of rules for the commercial insurance market, which is very welcome.

While this direction of travel is positive, we are at the beginning of much longer journey. Significantly, the secondary objective has helped to shift the Overton window, enabling an honest acknowledgement that the UK's regulatory framework may be overweight towards risk rather than growth. But this is not a simple binary choice between growth and consumer protection. The reality is much more complex.

Our regulatory framework has evolved rather like a coral reef, with layer upon layer being added in response to specific issues, each rational in isolation, but creating cumulative complexity. Similarly, the remit of the regulators has evolved and expanded over time, and the result is a complex system where one financial regulation requires us to think through how to balance multiple, sometimes competing, objectives. We have heard Nikhil Rathi describe those as tensions, but I like to think of them as balance points.

One way to conceptualise this is to think about a radar chart with at least five axes: financial stability, market integrity, consumer protection, competition and growth. Just like a balance board, if we focus too much on any one of those objectives, it risks destabilising the whole.

From my perspective, the tone of the current debate is constructive. Nikhil Rathi has said we need a mature conversation and I agree, but I would argue that we actually need to broaden the debate to move forward effectively and look at addressing three fundamental challenges.

The first is defining the optimal balance point. This requires an all-stakeholder conversation about what “good” looks like and where we collectively agree the balance should be struck.

The second is determining how we reach that balance point. Given the complexity of our regulatory system, we will need to decide whether change should come incrementally, through more dramatic reforms or through some combination of the two.

Thirdly, we are going to need to address the structural bias towards regulatory accumulation and find ways to maintain the right balance once we achieve it.

The work of this committee is crucial in shaping this discussion and the new growth and competitiveness objective provides a helpful foundation on which to build. The ABI and our members are pleased to have the opportunity to contribute to that conversation and we are committed to working with all stakeholders to ensure that the UK’s regulatory framework is effective, efficient and thus agile enough to deliver for consumers, businesses and the economy. Thank you.

**The Chair:** Thank you for that and for your submission. I am rather frustrated by any discussion of this kind. It is all about words—words about how we need to do this, how we need to try to balance this and the rest—rather than deeds. Can you give us some specific examples of things that might be removed or changed?

In your submission, you state, “Firms are growing increasingly concerned about the impact of the growing cumulative burden of regulation”, and you say, “The cumulative burden of compliance has forced firms to make trade-offs between complying with regulation or supervision and investing in their business”. Can you give us, if not this morning then in subsequent written evidence, specific things that need to change and

need to be taken out?

**Hannah Gurga:** It is a very important question and I have looked at quite a lot of the evidence that has been provided to this committee. I understand the desire for those specifics and I myself have sought to understand the specifics. However, my point would be that we are looking at a complex system, where a change in one area may have unexpected consequences elsewhere. So it is a complex system rather than a complicated one.

In terms of specifics, we have submitted our response to the FCA's handbook review. We would be very happy to provide that to the committee if that would be helpful. There, we welcome the objective of simplification, but, if the aim of that review is simply to remove duplication, that is not really going to address any of the regulatory burden. It helps to simplify, but it is not actually tackling some of the costs that are being imposed on the industry as a whole.

One of the challenges that we face as an industry is that we often find ourselves in a binary debate about growth versus risk or consumer protection versus growth. It is much more complex than that. If I were to give you a specific of what the committee might recommend, it is finding a way to enable that collective conversation, so that the regulators have comfort that they can take a slightly more progressive view on some of their agenda than they might have felt previously they could tolerate, given the level of scrutiny they get from the media, from Parliament, as well as from consumer groups.

It is a challenging role for the regulators. For the industry, we will always prioritise mandated regulatory change. We will prioritise investment in that. We must comply, but what seems to be missing from the debate is any assessment of the cumulative cost of regulation. I have done a back-of-the-envelope calculation, which I would be prepared to share with the committee in writing.

If you just look at LexisNexis, on financial crime alone, it is £38 billion for the financial sector. No one can argue with the statement that we must tackle financial crime. That is why it is a priority of the FCA and of the Government. I would imagine that the aggregate impact of regulatory compliance across the whole financial services sector is tens of billions more than that £38 billion. We need to find a way of calculating that cost, so we can have a dispassionate discussion around whether those costs meet the benefits that are being assessed by the regulator.

**The Chair:** If you would send the committee your back-of-the-envelope calculation, we would be very grateful. I am still not clear. For example, it has been suggested that the regulators might distinguish between wholesale and retail activities. You say in your evidence that, in the consumer requirements of the FCA, it is not clear what is a good outcome or what is a vulnerable customer. It is hard to see how that is going to change.

**Hannah Gurga:** You are asking a couple of questions there. Just in terms of that delineation between retail and wholesale, it is very positive that the FCA is now looking at the application of the consumer duty as it applies to commercial insurers. It has recognised that perhaps the scope, as originally applied, is broader than necessary, and that is a really good first step.

To some extent, that delineation between the retail and commercial is the simplest act for the regulator in terms of identifying where it needs to focus its effort. I know that there are others who have suggested there might be consideration of perhaps splitting the regulator. My view on that would be, "Be careful what you wish for". That can consume a huge amount of attention and effort and simply result in another regulator to add to the regulatory family that industry is already engaging with.

In terms of the consumer duty and the outcomes, we are supportive in principle of outcomes-based regulation, but it is a case of the regulator, industry and consumer groups working collectively through what that means in practice. My sense from discussion with ABI members is that there is a particular challenge on the retail side, and this is to do with the remit of that regulatory community, particularly the Financial Ombudsman Service.

The differing nature of the remit means that there is now a behaviour among some firms where they are anticipating what the ombudsman might say, rather than what the FCA rules say. That is compounded by the fact that, in addition to the rules, the FCA produces a lot of guidance and "Dear CEO" letters. To my astonishment, my members track speeches and podcasts of the regulator. They do that because they are trying to understand how the environment today might be interpreted in the future, either by the ombudsman or by the FCA when it is engaging in enforcement action.

To put that in real terms, one member—a mid-sized firm I will not name—told me that this year to date it had had its compliance team review over 250 regulatory publications by the FCA, of which 160 were relevant to its business. This is a huge amount of activity and that is why we need to think through the mechanism for quantifying the cost of that activity and perhaps look at ways of introducing a constraint. As I reflected on it in anticipation of coming before the committee today, it struck me that there is no constraint on the regulator issuing a new regulation or making a data request.

If you think about it in a fiscal context, you have the OBR which will do a forecast, but there is no mechanism at present to do that when it comes to regulation. A simple task might be to aggregate all the ongoing implementation costs that the regulators have put forward in their impact assessments. I have not seen that in aggregate. That might something that is useful for the regulators to report on against their new secondary objective going forward.

I am hopeful, though, about the CBA panels that have been introduced. They seem to be composed of experienced individuals who have relevant expertise. Over time, those panels might provide a mechanism to also think about more accurate quantification of not only the direct costs but the indirect costs, as well as the benefits, which, frankly, lack quantification in most of the impact assessments.

Q271 **Lord Sharkey:** Good morning. I wanted to ask about culture. Your written submission suggests there has been a development of an overly conservative culture at the regulators. I wondered whether you could give the committee some examples of this overly conservative culture, and perhaps also say what you think needs to be done to change it and how we might go about doing that.

**Hannah Gurga:** We do see some positive direction of travel with regards to the culture. The regulators are taking steps to embed the objective into the fabric of their organisations, and that includes investing in staff training, which is all very encouraging, but we are really talking about cultural change and anyone who has run any size of organisation understands how hard that is. The FCA is now over 5,000 people, so it is going to take time for it to drive that cultural change right through the organisation.

What is helpful is that the Chancellor's remit letter makes it clear that there is an expectation that the objective translates not just into policy-making but into supervision and day-to-day interaction with firms. That will be very positive, but what we are dealing with is a system with a structural bias towards regulatory accumulation and always going a little bit further.

That is no one individual's fault. That is just the nature of the system. You have reputational benefits for regulators, for government, for Parliament in taking regulatory action, in being firm and in responding to failures or scandals that are reported in the market. There is no reputational benefit the other way, as far as I can see. Where is the reputational benefit in not introducing a regulation? I would like to see us get to a cultural model where regulation is no longer the default but the last resort.

**Lord Sharkey:** Can you help the committee by pointing out any examples now of things that are characteristic of an overly conservative culture at the regulators?

**Hannah Gurga:** If we look at the data requests, which the regulators are now reporting against, I know from discussions with my members that, while the volume of data requests has reduced, the complexity has increased, and it is not always clear why the data is being requested.

Again, in anticipation of coming to the committee and knowing that you are keen to get specific data points, I asked whether I could provide any. There is a hesitation here because, quite often, firms are asked for ad hoc data and then nothing happens. There is a concern that, if this is

surfaced, that might prompt action, whereas what we need to understand is why the data requests are being made. What is the regulator trying to understand by requesting that information?

Here, if we look as a parallel at the ICO's guidance around FoI requests, there is a notional cost associated with those and, at some point, the public authorities can decline to make a response because of the cost to the organisation. There is no such constraint on the part of the regulator. These are hidden costs, because no one is quantifying what it costs to produce a skilled persons report and adding that to the total of the fees that the FCA is charging.

So I cannot give you specifics, Lord Sharkey. It is just anecdotal, but you see this also in the findings of the FCA and practitioner panel survey. If you look particularly at the question around data requests, "Do you agree that the data requests are proportionate?", for general insurance in particular it is very low. I think it is about 29%, from memory.

**Lord Sharkey:** Do you mean that 29% say, "Yes, it is proportionate"?

**Hannah Gurga:** Yes. The figure saying that they are proportionate and necessary is very low.

**Lord Hill of Oareford:** On a point of fact, when they put in a data request, do they have to give the reason why they are putting in the request?

**Hannah Gurga:** Not necessarily, no. Again, anecdotally, chief executives have said to me that they have asked the supervisor, "What are you using the data to find out?" They have done that to find out whether this is the most relevant data to provide in order to inform whatever hypothesis is being tested. And the answer is not always forthcoming.

**The Chair:** Your answer suggested that there is a degree of fear about saying no or upsetting the regulator, because it might have consequences. Were you implying that?

**Hannah Gurga:** This is something I am aware that the committee has asked a number of witnesses.

**The Chair:** You have obviously done your homework.

**Hannah Gurga:** I have, because I wanted to see how far I might be able to advance the thinking of the committee. You have had evidence from quite a number of ABI members. I know that we have Phoenix giving evidence in the new year. So I think there is a willingness to share their experience of the regulator.

I think it is quite a natural feeling for any industry that is regulated to have an element of caution around how overtly it wants to speak out against the regulator that supervises it.

Q272 **Lord Eatwell:** There are two things I would like to ask. First of all, you

said in your introductory remarks that the industry made investments of £1.4 trillion. Do you have an idea of how much of that is secondary market and how much is really primary investment? In other words, how much actually contributes to growth? It could be nil.

**Hannah Gurga:** The industry that the ABI represents manages £1.4 trillion through our policyholder and customer savings, pensions and other policies. I do not have a figure for you in terms of the primary and secondary market, but I understand why you are asking that question. There is such a focus now on where UK pension schemes are investing, with the focus on UK equity markets.

**Lord Eatwell:** It is a big issue for insurance in the sense that, with the risks that a company takes with particular projects, it will often attempt to acquire forms of insurance cover. Therefore, the provision of insurance to back new, real investment is key to the growth process. I want to know whether you are doing much on that. If you are not, that is a problem with the industry.

**Hannah Gurga:** The industry plays two key roles. It is both a risk enabler, insuring new types of projects, as you suggest, and an investor in its own right. That is an area that we are exploring very actively, particularly following the reforms to Solvency II.

We mobilised an investment delivery forum to look at where the industry might be able to invest in a broader range of productive assets through Solvency UK. That has involved us identifying where the projects might be that would be suitable for insurers' interests. In terms of Solvency UK, we are talking about debt financing, because it is all about highly predictable cash flows, rather than the equity element.

This is an area that we are actively focused on and, as an industry, we are committed to playing our part. We recognise our role in the economy. We want to do what we can to contribute to growth, but there is a much wider set of factors at play here, particularly around planning reform. Some of the initiatives that the Government have announced are positive in that regard, in helping to accelerate planning decisions, particularly for large-scale infrastructure projects.

**Lord Eatwell:** The other issue is that, in your introductory remarks, you said that you felt there was a structural bias towards regulatory accumulation. Is that not because there is an industry bias towards regulatory evasion? In other words, there is a game going on all the time, in the sense that the industry is looking at regulations and, in pursuing its business, trying to develop ways to both obey the regulations and perhaps sort of get around them a little bit and look to other areas.

That process of continuous innovation in what is a very innovative industry has a response from the regulator, trying to follow where the industry is going. So there is a game being played on both sides. There is not a particular structural bias towards regulatory accumulation. There is a structural bias in the, let us say, entire financial environment towards



regulatory accumulation.

**Hannah Gurga:** It is an interesting observation. I would not characterise it as a game. My sense of introducing this concept around regulatory accumulation was really to help the committee advance its thinking, in the absence of the specifics that you have historically been asking for from witnesses. It might be a useful concept if you imagine regulation as a sliding scale, where 1 is minimal regulation and 10 is maximum regulation. There is then a discussion to be had about the appropriate balance on that sliding scale. You would probably say it is about 5 and, maybe for any UK Government, the discussion is going to be where you want to be between 4 and 6.

Currently, when you look at the remit letters, the speeches given by the Chancellor and by the Prime Minister, where they say that the UK has been regulating for risk, not for growth, and the comments made by Sam Woods and Nikhil Rathi, there seems to me to be an emerging consensus that, on that sliding scale, we are a little bit towards the upper end.

My assessment is that that is reflective of a natural bias up that scale. There is not the incentive to push it down. What is the incentive to move from a stronger regulatory regime to one that is better calibrated towards the objectives that the regulators are looking to meet? It is not a game for the industry. There is a very strong reputational incentive for the regulator, for government, for Parliament to regulate. That asymmetry creates a one-way valve towards increasing complexity. How many regulators have we seen be eliminated over the past decade, versus how many we have seen emerge?

You have a bias through the electoral cycle. You have short-term decision-making by Governments and politicians. You have political risk aversion. You have international regulatory commitments as well, which also affect the ability to change, and market confidence concerns limit rapid change. Added to that, you then have the incentives of the regulatory bodies themselves and the resource implications for them of change.

**Lord Eatwell:** You have exactly the same countervailing incentives on the other side. They are called making money and building your business. There are incentives on both sides and that is why I call it a game. It is a mathematical expression of a game. It seems to me that the issue that we are facing here is how we can regulate better. How can we have a better system of regulation, better geared towards competition and growth for the British economy?

It seems that everybody is picking on issues and seeing this as a balance between risk and regulation. I did like your notion of the five-dimensional balance. That is very helpful, but it seems to me that the debate is in the wrong place. We are not getting from the industry a clear indication of how you can help the British economy grow better and what prevents you doing that. That is what we are looking for.

**Hannah Gurga:** I have suggested that there is an assessment of the cost of regulatory compliance. That would help inform the discussion. I am not saying it would be, again, a binary choice of whether to reduce it by £10 billion, which then goes directly into the economy, but it would enable a more constructive conversation than has been the case previously. This is where the secondary objective has been helpful. It has enabled us to start having this conversation. It is around more dimensions than just the two between risk and growth. Five may not be enough, actually. There are probably plenty more.

In terms of what we want to see as industry, we have seen lots of positive movement, actually, with this Government. They have announced the financial services growth and competitiveness strategy, and the industrial strategy. Those are really important developments, but those have to be followed through. With the financial services strategy specifically, we would like to see an advisory council that can help inform the development of the strategy and its execution.

Another concept I have been mulling over recently, as I have been thinking about the remit letter and the objective itself, is whether the regulators are encouraged to do a board skills matrix to make sure that the board actively reflects all the skills and expertise that is needed, in light of the remit. I have looked at the FCA's composition and I wonder whether it has the right balance now, in light of that secondary objective, particularly with the Chancellor saying we should do a bit more.

So there are some practical steps that can be taken, but the direction of travel is broadly positive. It is just going to take time. There, I recognise there is a strong tension in terms of what the Government want, what the economy needs, with that growth injection, and a regulatory system that, by its nature, takes time to consult.

In particular, when we are looking at investment in productive assets in the UK, there is a much broader set of considerations, which also will take time. As I say, planning reform is a critical step in that regard.

Q273 **Baroness Bowles of Berkhamsted:** I would like to explore further this area of the FCA and the PRA both saying, "Now we are moving into this area of more risk, but, as yet, we do not know quite what that means". You said earlier that you hoped that regulation could become the default. On the other side of that, how is industry going to have the confidence to introduce new products or do new things? The direction of travel we tend to have is that you have a product, you get approval for it, a truckload of regulation comes with it, but you can put a tick in all of the boxes.

As I understand it, some of what the FCA has been saying, for example about the consumer duty, the idea was to put the onus of showing that behaviour was good on to the industry, in order to get away from masses and masses of rules. How does this all fit together? The first thing that happens with consumer duty is that industry demands details as to where it can put the tick.

We are not principles-based. For something that is principles-based, I have never seen so many rules in all my life. How do we actually move to principles-based? How can industry accept the risk that that means for it? Does it move us to an adversarial system? There are so many questions in this, but you wanted regulation as default. What are the follow-on consequences?

**Hannah Gurga:** I apologise if I misspoke. We need a culture where we move away from regulation being the default to one where it becomes the last resort. To draw an analogy, what do they say? "To a hammer, every problem looks like a nail". We are in a system where regulation seems to be the answer.

Regarding the consumer duty, it is a really challenging paradox, is it not? It is principles-based and outcomes-based but, at the same time, because it is so new, there is a desire to have some explanation about what "good" looks like. Certainly, I know from engagement with ABI members that they have appreciated the good and poor practice reviews that the FCA has produced to help them identify what good does look like.

We need to get to a place where it is possible for industry, regulators, Parliament, government and consumer groups to arrive at a collective understanding of what good looks like. I mentioned the Financial Ombudsman Service. That is a really important consideration for the industry, because it is anticipating how the FOS might interpret this in five, 10 or 20 years' time.

The current consultation, the call for input, on modern methods of redress, et cetera, will be helpful in advancing the debate, so that there is certainty around the scope of the FOS and the decisions it makes. Unless we have that common understanding, we are always going to be at odds with one another.

The Treasury Select Committee recently heard evidence from some consumer groups. I was reading through some of that and it appeared that some consumer groups felt that the consumer duty had not actually had an impact. The one-off cost of the consumer duty in the FCA's own impact assessment was up to £2.4 billion. One would hope that it will, over time, generate those good outcomes that we all want for consumers. It got me thinking: is it because we are not all aligned on what those good outcomes are?

There is a need for further conversation, but also a willingness on the part of the regulator to stand behind this being outcomes-based and allow firms different ways in which they can meet that requirement. As I say, it is challenging, because firms also like to have the comfort of an explanation of what good looks like, so that they know that they will be in a good position, should there ever be a challenge down the line.

**Baroness Bowles of Berkhamsted:** I have been speaking to quite a few consumer groups recently and many of them say things that are

along the same lines as we have just been travelling. They think the job of business is to earn more from the customer and some of them say, "It is the job of business to cheat the customer". That is probably a little too colloquial for what they really mean.

So there is this level of mistrust going on. Yes, businesses have a need to earn more, but how do we ensure that that is honest? That is what the consumer duty is really meant to be about. How do you prove that?

**Hannah Gurga:** This gets to the heart of fair value assessments, which were introduced for insurers a little bit prior to the consumer duty. That work is ongoing. The FCA has been clear that fair value is about more than just price and the industry is working hard to demonstrate that the price paid reflects the overall benefits that the customer receives.

This will remain a work in progress. It is an anecdote, again, rather than specifics, but yesterday I was talking to a consultancy that advises many firms on skilled persons reports across the board and, in discussion, it mentioned an example to me of a firm that was actually making a very good margin on a particular product, but decided to withdraw that product because it was not confident that it would be able to explain why that margin was justified. I thought it was very interesting that that was the decision process. Rather than looking at how to recalibrate the margin, it was simply a case of withdrawing the product.

So there is further work to be done, but the commitment is there. Some of the work that the FCA has done in looking at good and poor practice around this has been helpful in informing how the industry approaches it.

**Baroness Bowles of Berkhamsted:** Does it mean we are moving away from using markets and competition and almost into price regulation?

**Hannah Gurga:** I am not an economist, but it has struck me that, depending on the approach taken by the regulator to fair value, it could, in effect, be pricing regulation by the back door. What is an appropriate margin? That is something that the regulator is mindful of, but we need to make sure that we are having those conversations.

This gets us to a different topic entirely, which is really around financial education and capability. What can we do so that customers are better placed to take some of these decisions themselves? That is outwith the scope of this secondary objective for the regulators, but it is something we need to look at collectively. What can we do to help ensure that this country is a nation of people who understand the benefits of investment and are more confident in making investments?

Again, that is going to take time, but it is important that we make a start. I would encourage that start to be as soon as possible, so that we have people who are much more confident with their finances.

**Baroness Bowles of Berkhamsted:** Can you link together, then, the regulator saying that it wants to accept more risk taking as also accepting

more market discipline and, therefore, the market competitiveness side coming back in to balance the move towards price regulation? Is that a fair assessment?

**Hannah Gurga:** You can make that linkage, but the Chancellor's remit letter also set out an expectation that there will be more responsibility on the part of the customer. We need to equip them so that they are making decisions on an informed basis.

If I think particularly about pensions adequacy, which my members care a lot about and are very active on in the market, we have, as a nation, moved away from defined benefit schemes to defined contribution schemes. That is a huge risk transfer to the individual customer, but we have not accompanied that with help to educate people, so that they understand what that means for their future financial retirement. It is not the same type of product. You are not going to get the same kind of income as you would have done from a defined benefit scheme.

We have not collectively sought to educate people about this. The risk for pensions, with DC, is now sat with the customer. At the same time, the regulatory system has made it less attractive for customers to get the advice that they need. Fewer than 10% are now getting advice to take financial decisions, which is particularly important when it comes to things such as pensions. So there is a market competitiveness dimension, but there is also a financial education capability aspect that needs to be looked at in parallel.

Q274 **Lord Hollick:** You have painted a picture of a rather systemic regulatory growth: very healthy coral. You also mentioned one of your members monitoring every utterance of the regulator to make sure that they know where it is going and where it might be going. It is a rather Kafkaesque approach to things.

As a committee, we are concerned with dealing with concrete examples, and several of your members have pointed some out. One of them, Marsh McLennan, said that costs were six times more than the next competitor. That seems to be a pretty concrete and rather onerous fact. Others have mentioned that they have decided to withdraw from certain markets because they are just too overburdened by regulation.

These are specific examples. When you are going to sit down with the regulators, these discussions are in danger of being at a rather theoretical level, asking, "How do we get the balance right?" and everything like that, whereas you are really asking, "Could you please cut the burden?" That comes to remit. What could be cut out of the remit of the FCA that would actually reduce burdens?

Is the principled approach really just a licence to continually add and accrete more? Would it be better to have clear rules that are followed? What advice do you give to the Treasury as to how it should approach this, rather than just having high-level discussions about balance and risk? What are the specific examples that you, as the industry—and it is the industry's responsibility to come forward with this—want to see to

reduce this burden and promote growth?

**Hannah Gurga:** I talk about it as a complex system, rather than a complicated system. With a complicated system, such as a jet engine, even though it is difficult, you can follow an instruction manual to put it together and take it apart. With the regulatory system we have, when removing one regulation or adding another regulation you are never quite sure where another issue is going to pop up. What might be the unexpected consequence?

As industry, we are supervised by the FCA, the PRA, the TPR and others. I am not sure that us saying, "This is what we think the remit should be", would really land well with, say, the consumer groups. This is really a matter for Parliament and government. We are simply highlighting that the breadth of the remit does make it challenging for the regulators. In order for the Government to prosecute their objective and priorities around growth, they will need some form of air cover, through government and through Parliament, helping them when they take those difficult decisions around trade-offs.

I saw the evidence that Marsh McLennan provided. It is not actually a member of the ABI. I appreciate that those examples are helpful in focusing the mind, but one of the challenges is that it is not always a like-for-like comparison, particularly when you look at US regulation. That model is quite different, particularly for insurers.

We would like consideration about the sequencing. Previously, I used to work at UK Finance, and I know David Postings gave evidence. Some years ago, UK Finance called for an air traffic control system, which led to the creation of the regulatory initiatives grid. That is helpful, so far as it goes, because it provides, at the moment, a 60 or 65-page summary of upcoming regulation over the next two years.

It does not include any costs associated with that. That would be a very helpful step. Think about how much regulatory change the industry has had to absorb over the last couple of years. It has been enormous. Insurers have had GI pricing practices, consumer duty and Solvency UK, all of which are huge regulatory implementation programmes—some of which we wanted, which is the other dimension.

There should be consideration given to how much of the industry's budget you want directed towards regulatory change at any one time. That would be a very helpful consideration to put into the debate in order to help focus on which of these initiatives the regulators want the industry to prioritise.

**Lord Lilley:** That is surely for you to do. You tell us what proportion of your industry's budget should be devoted to regulation.

**Hannah Gurga:** With respect, we will always seek to comply with the regulations and, as I have described and as you are aware as a committee, the remit of the regulators is now very broad. They will look

to introduce regulation to help execute against that strategy. The next element will be around operational resilience. That is also very important. The PRA is looking at solvent exit planning. In addition, we are looking at the financial services growth and competitiveness strategy.

There is a huge amount of regulation and policy development under way and it is really more for the authorities to take a view collectively. What do they think we need to be focusing on first? Which of these policies is the most important and what do we need to prioritise?

I can see an example of where they have done that with Solvency UK, the captives regime and the ISPB consultation. It seems to me, as an outsider looking in, that a decision was taken on a resourcing basis that Solvency UK needed to be prioritised above ISPB reform and captives. That would seem to me to be a sensible sequencing of regulatory change. We are now in a position where we can take forward that consultation on captives, which is very helpful in exploring ways in which the market can contribute to growth.

**The Chair:** On that note, we have run out of time. Can I thank you on behalf of the committee for not just your written evidence but the evidence you have given today and the careful analysis you have made of the committee's previous proceedings? For that, we are very grateful. Thank you very much.